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Research Update:

Pohjola Bank Ratings Affirmed At 'AA-/A-1+' Following Sovereign Rating Action; Outlook Negative

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Overview

- Standard & Poor's has reviewed the impact of its outlook revision on Finland on its ratings on Pohjola Bank.
- We continue to include one notch of uplift for extraordinary government support in our long-term rating on Pohjola Bank to reflect the bank's high systemic importance in Finland.
- Consequently, we are affirming our 'AA-/A-1+' ratings on Pohjola Bank.
- The negative outlook reflects the possibility of a downgrade linked to a negative rating action on the sovereign, as well as the possible removal of government support by year-end 2015 and our view that Finland's weak economic recovery could hamper the banking sector's performance over the next two years.

Rating Action

On Sept. 29, 2015, Standard & Poor's Ratings Services affirmed its 'AA-/A-1+' ratings on Finland-based Pohjola Bank. The outlook remains negative.

Rationale

The affirmation reflects that our assessment of a "moderately high" likelihood that Pohjola Bank would receive government support, if needed, remains unchanged after the outlook revision on the Republic of Finland (see "Outlook On Finland Revised To Negative; 'AA+/A-1+' Ratings Affirmed," published Sept. 25, 2015, on RatingsDirect). In our view, Pohjola Bank has "high systemic importance" in Finland, a country we consider as "supportive" toward its banking sector. Under our criteria, a lowering of the sovereign credit rating on Finland to 'AA' from 'AA+' would lead us to remove the notch we currently apply to our ratings on Pohjola Bank to reflect our view of government support. We would consequently derive an issuer credit rating on Pohjola Bank at the level of our assessment of the bank's stand-alone credit profile (SACP).

Furthermore, our opinion that the potential extraordinary government support available to Pohjola Bank's senior unsecured bondholders will likely diminish by the end of 2015 remains unchanged. We could remove the notch for extraordinary state support from our rating on the bank shortly before the January 2016 full implementation of the EU Bank Recovery and Resolution

Directive bail-in powers for senior unsecured liabilities in Finland. These rules would indicate to us that the Finnish government would be much less able to support senior unsecured bank creditors, even though it may take several more years to eliminate concerns about financial stability and the resolvability of systemically important banks.

Positively, we note that the wider OP Financial Group, on which we base our assessment of Pohjola Bank's creditworthiness, has strengthened its financial profile in line with our expectations. OP Financial Group has diligently delivered on the recapitalization plan following the share buy-back transaction in 2014 to achieve its stated new common equity tier 1 (CET1) target of 18%. The group achieved this target in the first half of 2015--ahead of the initial plan by year-end 2016--as the bank reached a CET1 level of 18.1%. This translates into a risk-adjusted capital (RAC) ratio of 10.4% as of June 30, 2015. We project the group's RAC ratio to further improve to about 11.0%-11.5% by year-end 2016, supported by strong earnings and the planned issuance of profit shares. The return of the group's RAC ratio sustainably above the 10% mark underpins our current "strong" assessment of the bank's capital and earnings position, and we no longer consider it to be a negative trigger for the outlook on Pohjola Bank.

Outlook

Our negative outlook on Pohjola Bank reflects our view that the extraordinary government support to the bank could be less predictable under the new EU legislative framework. We could lower the ratings by one notch by year-end 2015 if we believe there is a greater likelihood that senior unsecured creditors may incur losses if the bank fails once the EU Bank Recovery and Resolution Directive, including bail-in tools, is fully enacted in Finland.

The outlook also accounts for the possibility of a downgrade following a negative rating action on Finland. If we were to lower long-term rating on Finland, which now carries a negative outlook, by one notch to 'AA', we would remove the notch for extraordinary government support currently in place on our ratings on the bank. This would lead to a one-notch downgrade of the bank.

Furthermore, Finland's weak economic recovery could hamper the banking sector's performance over the next two years, which could lead us to lower our 'a-' anchor for Finnish banks, including Pohjola Bank.

We could revise the outlook to stable if we consider that potential extraordinary government support for Pohjola Bank's senior creditors is unchanged in practice, despite the introduction of bail-in powers and international efforts to increase banks' resolvability; or if we believe that other rating factors, such as measures that would provide substantial additional flexibility to absorb losses while the bank remains a going concern. We would also need to see improvement in Pohjola Bank's funding and liquidity, which still compares unfavorably with peers.

Ratings Score Snapshot

Issuer Credit Rating	AA-/Negative/A-1+
SACP	a+
Anchor	a-
Business Position	Strong(+1)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Average and (0) Adequate
Support	+1
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	+1
Additional Factors	0

Related Criteria And Research

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Outlook On Finland Revised To Negative; 'AA+/A-1+' Ratings Affirmed, Sept. 25, 2015
- Banking Industry Country Risk Assessment Update: September 2015, Sept. 18, 2015
- Pohjola Bank Plc, Aug. 24, 2015
- Capital Continues To Drive Improvements in Nordic Banks' Credit Profiles, July 27, 2015
- Finland Ratings Affirmed At 'AA+/A-1+' On Still-Strong External And

Government Balance Sheets; Outlook Stable, March 27, 2015

- Nordic Banks Face Credit Pressures From Bail-In Regulations And Economic Risks, March 9, 2015
- Banking Industry Country Risk Assessment: Finland, Jan. 29, 2015
- Capital Strengthening Is At The Forefront of Nordic Banks' Improved Credit Profiles, Dec. 18, 2014
- Ratings On Three Finnish Banks Affirmed On Subdued Economic Recovery; Outlooks Remain Negative, Oct. 22, 2014

Ratings List

Ratings Affirmed

Pohjola Bank PLC

Counterparty Credit Rating	AA-/Negative/A-1+
Senior Unsecured	AA-
Senior Unsecured	cnAAA
Subordinated	A-
Commercial Paper	A-1+

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